

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Damon Silvers

Congressional Oversight Panel Field Hearing on Commercial Real Estate

Atlanta, Georgia
January 27, 2010

Good morning. Like my fellow panelists, I am very pleased to be here in Atlanta, and grateful for the help and presence here today of Atlanta's mayor, Kasim Reed. I would also like to express my thanks to all our witnesses, and in particular to the FDIC and the Federal Reserve Bank of Atlanta for the work both institutions have done analyzing the state of commercial real estate in the Southeast.

The Emergency Economic Stabilization Act of 2008, which gave rise to TARP, sought to address both the immediate acute crisis that gripped world markets in October, 2008, and the deeper causes of that crisis in the epidemic of residential foreclosures. The purpose of the Act was not to stabilize the financial system for its own sake, but to do so in order that the financial system could play its proper role of providing credit to Main Street.

Since this Panel began its work a little more than a year ago, we have continued to ask three questions— (1) Is TARP working to stabilize the financial system; (2) Is the financial system doing its job of providing credit to Main Street; and (3) is TARP functioning in a way that is fair to the American people.

Today's hearing on the impact of difficulties in the commercial real estate market is really about all three of these questions. There is \$3.5 trillion in U.S. commercial real estate debt. \$500 billion of that debt will mature in the next few years. There was clearly a bubble in commercial real estate values prior to 2008, though it is not clear the extent of the bubble. As a result, the return of commercial real estate prices to levels that are supported by real estate fundamentals is a potential source of systemic risk. For example, recently Bank of America was allowed to repay TARP funds in a manner that weakened its Tier 1 Capital ratios. Meanwhile, here in Atlanta Bank of America is dealing with large commercial real estate problem loans in properties like Streets of Buckhead.

In addition, it is unclear whether the financial system is healthy enough to provide financing for properties even when they are properly priced, let alone financing for new development.

Finally, there is the question of the impact of the decline of commercial real estate values on smaller banks. Here in Georgia there have been thirty bank failures since August of 2008. These banks have gone through the FDIC resolution process resulting in their disappearance as independent entities. The contrast between the impact of the financial crisis on small banks and on very large failing financial institutions that received both extraordinary TARP assistance and assistance from the Federal Reserve System appears to raise fundamental issues of fairness.

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I hope this hearing will address these questions, and in the process help the Panel to advise the Treasury Department and the Congress as to what steps if any need to be taken in the area of commercial real estate. I do not believe it is either desirable or possible to prevent commercial real estate prices from returning to sustainable levels. The goals here should be to ensure that the collapse of the bubble in commercial real estate has little if any systemic impact, that financing remains available for both existing property and new construction that is rationally priced, and that the federal government conducts itself in this area in a manner that is fair to both small and big financial institutions, and to communities where commercial real estate financing is vital to maintaining community vitality and jobs.

In reviewing the materials our staff helpfully provided for this hearing, I cannot help but be struck by the contrast between the bonuses being announced this week by the institutions the public rescued on Wall Street, and the unabated tide here in Atlanta and across this country of unemployment, residential and commercial foreclosures. President Obama has rightly asked the big banks to help pay for TARP. But more needs to be done to restore fairness to our economy and our financial system. I hope that this hearing can provide concrete ideas that we can bring back to the Treasury Department and the Congress for how TARP can be managed to be part of the solution for communities like Atlanta—solutions that lead to the financial system playing its proper role as a creator, and not a destroyer of jobs and communities.